State of Michigan
Department of Licensing and Regulatory Affairs

UNEMPLOYMENT INSURANCE AGENCY

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Fact Sheet

Fact Sheet #142
November 2011

Reminder: Solvency Tax Still in Effect

What is the Solvency Tax Used For?

Whenever the Unemployment Insurance Agency (UIA) borrows money from the federal government to pay unemployment benefits, the solvency tax is triggered by a provision of the Michigan Employment Security (MES) Act to pay the interest on the federal loans. The solvency tax can only be used to pay the interest.

Who pays the Solvency Tax?

- Only a contributing employer, that had a negative balance in their experience account as of June 30th of the preceding calendar year. A "Negative Balance Employer" is one that paid less in state unemployment taxes than their former employees received in unemployment benefits.
- The negative balance employer must also have had to pay unemployment taxes for five consecutive years

When did the Solvency Tax become effective?

The solvency tax went into effect January 1, 2011.

How long will the Solvency Tax be in Effect?

The solvency tax remains in effect until the interest on all outstanding federal loans are repaid in full.

How is the Solvency Tax calculated?

- The solvency tax is 1/4 of the account building component (ABC) of the employer's contribution rate as determined under Section 19(a)(4) of MES Act.
- The maximum solvency tax rate is .75% (.0075)**,** based on a 3% maximum Account Building Component (ABC)**.**
- The maximum tax increase per year would be $67.50 per employee, based on the annual taxable wage base per employee of $9,000.
- The solvency tax is in addition to an employer's calculated tax rate and will be displayed as a separate line item on Form UIA 1771, **Tax Rate Determination For Calendar Year 2012** (if applicable).

How can an employer avoid the Solvency Tax?

By making a voluntary UI tax payment, no later than November 30, 2011, employers can potentially avoid paying the solvency tax. If the payment exceeds the employer's negative reserve balance, as of June 30th of the preceding calendar year, the employer would no longer have a negative reserve balance and be subject to the solvency tax. If an employer cannot make a voluntary payment by November 30, 2011, they can still make a voluntary payment within 30 days from the date of mailing of Form UIA 1771, **Tax Rate Determination For Calendar Year 2012.**

Tip for Positive Balance Employers

Monitor your reserve balance. If you determine that your reserve balance will become negative by a small or manageable amount, submit a voluntary payment to exceed this amount. This is a method you can use to avoid becoming a negative balance employer and avoid the solvency tax.

If you determine that submitting a voluntary payment will be advantageous for you, submit your payment to the address listed below, Suite 11-500. Be sure to print your UIA Employer Account Number and "Solvency Voluntary Payment" on your check.

For more information about the solvency tax, employers may call the UIA Office of Employer Ombudsman (OEO) at either 1-855-484-2636 (4-UIAOEO) or 1-313-456-2300, or email OEO@michigan.gov.

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